DOMTAR



# 1973 Annual Report

# Domtar Limited
# 1973 Annual Report

**Our Cover**
Symbolized by the photographs on the cover of this report, the span of Domtar's activities covers three distinct yet related industries—forest products, construction materials and chemicals.


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# Contents



*The annual meeting of Domtar Limited will be held Tuesday, April 30, 1974 at 4 p.m. in the Windsor Hotel, Montreal, Quebec.*

# Directors and Officers

## Directors

*Alex E. Barron, Toronto,
Chairman of the Board,
Canadian Tire Corporation Limited

*T.N. Beaupré, Montreal,
Chairman of the Board and President,
Domtar Limited

*H. Roy Crabtree, Montreal,
Chairman and President, Wabasso Limited

J.E.L. Duquet, Q.C., Montreal,
Senior Partner in the legal firm of Duquet, MacKay, Weldon, Bronstetter & Thivierge

*A.L. Fairley, Jr., Birmingham, Ala.,
President and Chief Executive Officer,
Hollinger Mines Limited

C.L. Gundy, Toronto,
Chairman, Wood Gundy Limited

Roger T. Hager, Vancouver,
Chairman of the Board,
The Canadian Fishing Company Limited

Alex D. Hamilton, Montreal,
President, Domtar Pulp & Paper Products Ltd.

J.G. Kirkpatrick, Q.C., Montreal,
Partner in the legal firm of Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault

Camille Lacroix, St. Romuald, Quebec,
President, Matapedia Company Limited

Roger Létourneau, Q.C., LL.D., Quebec,
Senior Partner in the legal firm of Létourneau, Stein, Marseille, Delisle & LaRue

*A. Bruce Matthews, C.B.E., D.S.O., Toronto,
Executive Vice-President
Argus Corporation Limited

*John A. McDougald, Toronto,
Chairman and President,
Argus Corporation Limited

*Maxwell C.G. Meighen, O.B.E., Toronto,
Chairman of the Board,
Canadian General Investments Limited

Nathan Pitcairn, Jenkintown, Pa.,
Director, Pitcairn Incorporated

*Arthur Ross, New York,
Executive Vice-President and Managing Director,
Central National Corporation

*J.N. Swinden, Toronto,
General Manager, Argus Corporation Limited

J. Thomas Timmins, Montreal,
President, Chromasco Corporation Limited

*Members of the Executive Committee

## Officers

T.N. Beaupré,
Chairman of the Board and President

S.A. Kerr,
Vice-President—Administration and Secretary

J.P. Lunderville,
Vice-President—Engineering, Purchasing and Transportation

R.J. Moyse,
Vice-President—Finance

G.H. Tomlinson,
Vice-President—Research and Environmental Technology

G.M. Drodge,
Controller

C.A. Brooke,
Treasurer

E.G. Aust,
Assistant Treasurer

A. Gascon,
Assistant Secretary

## Operating Companies

Domtar Chemicals Limited
President—A. Monsaroff

Domtar Construction Materials Ltd.
President—J. Cochran

Domtar Pulp & Paper Products Ltd.
President—A.D. Hamilton,
Vice-President—J.H. Smith

Domtar Fine Papers Ltd.
Vice-President and General Manager—J.H. Robertson

Domtar Newsprint Limited
Vice-President and General Manager—W.D. Davidson

Domtar Packaging Limited
Vice-President and General Manager—W.R. Lawson

Domtar Pulp Limited
Vice-President and General Manager—R.R. Pinard

Domtar Woodlands Limited
Vice-President—A.S. Fleming

## Head Office

395 de Maisonneuve Blvd., West,
Montreal, Canada H3A 1L6

## Transfer Agents

for preference and common shares:
Montreal Trust Company—Halifax, N.S.; Saint John, N.B.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Regina, Sask.; Calgary, Alta.; Vancouver, B.C.

for common shares only:
The Bank of New York—New York, N.Y.

## Registrars

for preference and common shares:
The Royal Trust Company—Halifax, N.S.; Saint John, N.B.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Regina, Sask.; Calgary, Alta.; Vancouver, B.C.

for common shares only:
The Bank of New York—New York, N.Y.

Les actionnaires qui préféreraient recevoir leurs rapports en français voudront bien en aviser le Secrétaire de Domtar Limitée

# Highlights

| | 1973 | 1972 |
|---|---|---|
| Sales | $655,843,629 | $560,779,334 |
| Income taxes—Current | $ 21,435,000 | $ 8,320,000 |
| Income taxes—Deferred | $ 5,217,000 | $ 5,255,000 |
| Earnings before extraordinary items | $ 40,559,466 | $ 17,467,787 |
| Net earnings after extraordinary items | $ 40,559,466 | $ 13,367,787 |
| Common shares outstanding | 14,827,300 | 14,827,300 |
| Earnings per common share before extraordinary items | $ 2.70 | $ 1.14 |
| Earnings per common share after extraordinary items | $ 2.70 | $ 0.86 |
| Dividends per common share | $ 1.00 | $ 0.60 |
| Working capital | $152,462,455 | $130,239,101 |
| Cash flow from operations | $ 73,658,335 | $ 50,381,362 |
| Cash flow—Per common share | $ 4.93 | $ 3.36 |
| Expenditures on fixed assets | $ 42,098,750 | $ 28,485,046 |
| Book value per common share | $ 17.33 | $ 15.63 |
| Number of preference shareholders | 1,784 | 1,825 |
| Number of common shareholders | 27,705 | 34,824 |
| Number of employees | 18,017 | 17,436 |
| Payroll and Benefits | $195,125,000 | $175,422,000 |

# Report of the Directors to the Shareholders

The consolidated financial statements of Domtar Limited and its subsidiaries for the year ended December 31, 1973 and the report of the Auditors are submitted on behalf of the Board of Directors.

## Sales and Profits

Sales and profits for the year 1973 were substantially greater than in the previous year, reflecting the high level of economic activity which prevailed throughout 1973. Net earnings amounted to $40.6 million or $2.70 per common share compared with $17.4 million (before extraordinary items) or $1.14 per common share in 1972. Cash flow reached $73.7 million, the highest amount in the Company's history.

In viewing current results in relation to past performance, allowance must be made for the general increases in price levels that have taken place throughout the world and the decline in the real value of the monetary units in which sales and profits are expressed. In arriving at profits as reported in the published accounts, the standard and accepted accounting practice is to base the deduction for depreciation on the original cost of plant and machinery although it is generally recognized that the cost of replacing equipment is far in excess of its original cost. In an inflationary period such as has been experienced over the past several years, the accounting allowance for depreciation does not provide sufficient funds for replacement and, to this extent, the present method of financial reporting tends to overstate cash flow and net earnings; their values in real terms and in relation to past values are less than those reported.

Compared with the previous year, sales during 1973 were distributed among the three major product groups as follows:

| | 1973 | | 1972 | |
|---|---|---|---|---|
| | millions | % | millions | % |
| Pulp and Paper | **$442.0** | **67.4** | $364.5 | 65.0 |
| Construction Materials | **122.1** | **18.6** | 110.9 | 19.8 |
| Chemicals | **91.7** | **14.0** | 85.4 | 15.2 |
| | **$655.8** | **100.0** | $560.8 | 100.0 |

The improvement in the financial results of the Pulp and Paper group was most encouraging. All segments registered gains; profitability in relation to assets employed began to approach more acceptable levels which had not been attained for several years. Fine Papers and Packaging made major contributions and Newsprint results continued to improve. For the first time, the operations of the pulp mill and chemical plant at Lebel-sur-Quévillon, Quebec, made a significant addition both to the Company's net earnings and cash flow.

Profits generated by the Construction Materials company increased appreciably, reflecting the buoyant activity in building construction.

Although sales and profits of the Chemicals group were adversely affected by strikes, they rose moderately and again made an important contribution to the Company's earnings.

## Dividends

Due to the improved financial results, the common dividend was restored to the level existing immediately prior to 1967. The fourth quarter dividend was raised from 15¢ to 25¢ per common share and an extra dividend of 30¢ per common share was also declared. As a result, the dividends declared on the common shares amounted to $1.00 per share in 1973.

## Funded Debt

The steady and continuing repayment of the Company's long term debt over the past few years has reduced the total amount outstanding at the end of 1973 to $115.2 million, a reduction of $7.9 million during the year.

As a result, funded debt outstanding as a percentage of total capital invested (i.e. the sum of funded debt, deferred income taxes, minority interests and equity capital) amounted to 24% at the end of the year; this compares with 35% at the end of 1967, the year in which the last issue of debentures was made.

## Fixed Assets

Net additions to plant and equipment amounted to $42.1 million in 1973. Major projects were the purchase of a salt mine in Cote Blanche, Louisiana, the building of an office and distribution complex at Malton, Ontario, for the Packaging group and the expansion of linerboard facilities at Red Rock,

1

2

3

3


4

5

1. This new chipping machine transforms whole trees up to 60 feet in length into chips for pulping in less than a minute.

2. As part of the provincial program for student summer employment in Quebec, some 300 students worked on 18 different projects on lands managed by the Woodlands company. The purpose of these projects is to promote better forest growth as well as to tap the recreational and educational potential of the woodlands. In addition to the jobs generated by this highly successful program undertaken jointly by industry and government, Domtar provided employment for some 1270 students across Canada last summer.

3. The Packaging company has consolidated its existing office and distribution facilities in metropolitan Toronto into a single $2.5 million complex. Located on an 11-acre site in Malton, Ontario, the complex accommodates some 150 persons, has 20,000 square feet of office and 140,000 square feet of warehousing and manufacturing space.

4. Latest addition to the long line of Domtar products, COMFEES® disposable diapers were introduced to consumers in the Ottawa region last autumn. They will be made available in other major Canadian markets during 1974.

5. Fine Papers customers get special attention from (left to right) Dana Babbitt, Iris Anthony and Francis Youngman. Thanks to a new computerized order entry system, they process customer orders in less than three minutes. The only one of its kind in the Canadian paper industry, the system links the Montreal and Toronto sales offices of the Fine Papers company to its six mills. Its installation is a major step toward computerized inventory control and paper machine planning.

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Ontario. During the latter part of the year, work began on the erection of a stud mill and related dry kiln facilities at Lebel-sur-Quévillon.

It is currently estimated that, in 1974, approximately $60 million will be spent on fixed capital additions and related investments plus a further $6 million ($3.3 million in 1973) on expenditures for pollution abatement.

### Working Capital

The working capital position of the Company continues to remain strong. Income and other taxes payable rose to $20.4 million at December 31, 1973; practically all of this liability will be paid during the first quarter of 1974. Proceeds from the sale of the mill at Trois-Rivières, Quebec, contributed substantially to the net cash position of the Company. Cash and short term investments less bank indebtedness (net cash position) amounted to $45.8 million at December 31, 1973 compared with $9.8 million at the end of the previous year.

### Preference Shares

During 1973, the Company purchased 21,400 of its preference shares. These shares carry a cumulative annual dividend of $1 per share and were purchased at prices considerably below their par value of $23.50 per share. A reduction in the amount of preference shares outstanding leaves a greater proportion of the net earnings available to the common shareholders of the Company. In addition, the outstanding preferred shares of St. Lawrence Corporation Limited, a subsidiary, were reduced by 8,184 shares.

### Source and Use of Funds 1968-1973

While the five years 1968-72 were particularly difficult ones for the Company, partly because of conditions prevailing world-wide in the pulp and paper industry and more particularly because of the problems related to the Company's pulp mill and chemical plant at Lebel-sur-Quévillon, the Company was able to continue to pay dividends, redeem debt, spend substantial sums on plant and equipment and invest in working capital necessary to support its businesses. The year 1973 registered a major improvement over the previous five years. The table below summarizes the sources of funds over this six year period 1968-1973 and the use to which those funds were put.

| Source | (millions) |
|---|---|
| Cash Flow | $296.5 |
| Disposals | 34.8 |
| Common Shares Issued | 1.7 |
| | $333.0 |

| Use | |
|---|---|
| Plant and Equipment | $168.0 |
| Redemption of Funded Debt | 50.2 |
| Reduction in Minority Interests | 12.4 |
| Investments and Advances | 0.4 |
| Dividends on Common Shares | 60.7 |
| Dividends on Preference Shares | 2.7 |
| Increase in Working Capital | 34.1 |
| Other | 4.5 |
| | $333.0 |

### Return on Capital Employed

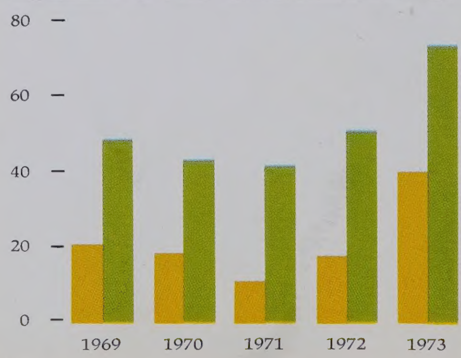
The return (after taxes) on the capital employed in the business amounted to 9.6% in 1973, a substantial improvement over the returns achieved in recent years. It is a level that must be sustained and improved, particularly in the pulp and paper sector where the Company has its largest investment, if the necessary capital is to be obtained over the years ahead for development and expansion. During the years 1966-1973, the average after tax return on capital employed amounted to only 5% (before extraordinary items), a return that is clearly inadequate.

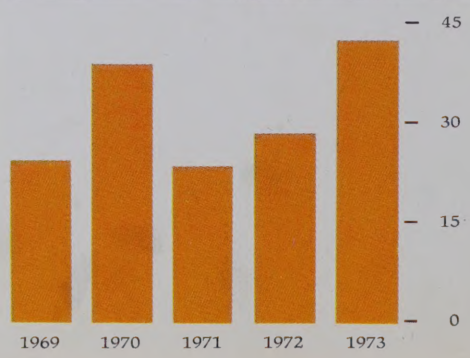
### Labour Relations

Fifty-four collective agreements were negotiated during the year. The majority were for a two-year term and

**Net Earnings* and Cash Flow**
(millions of dollars)
*before extraordinary items 1971-1972

Net Earnings
Cash Flow




**Capital Expenditures**
(millions of dollars)

1. A premium grade of rock salt for chemical, industrial and ice control uses is extracted from the unusually high walls of the Cote Blanche, Louisiana, salt mine. The mine was acquired in 1973 by Domtar Chemicals Inc., a United States subsidiary of Domtar Limited. The salt is shipped to customers in 24 states via the extensive inland waterway system of the Mississipi River.

2. Solids recovered by the new $2.7 million clarifier (lower right) from the effluent at the Cornwall, Ontario, Fine Papers mill are being used to build a ski hill destined to become a public landmark in the area.

3. This recently completed distillation unit at the Chemical company's Hamilton, Ontario, plant, which doubled its capacity to supply coal tar pitch to the industrial carbon and electrometallurgical industries, processes 19 million gallons of tar annually.

4. An imaginative and striking application of ARBORITE® decorative laminate on counters and tellers' cubicles in a suburban Montreal branch of the Bank of Montreal.

5. For rugged insulation in times of fuel shortage, as well as for other qualities such as durability and appearance which appeal to builders and architects, there is nothing quite like burned clay brick produced by Domtar Construction Materials Ltd. In this application, it graces a recently completed residence for the elderly in Toronto.

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included those covering all but one of the primary pulp and paper mills in the Company.

There were ten legal strikes in the Construction and Chemical companies and short-term stoppages and harassment activities at five Pulp and Paper locations with a resultant loss of approximately 52,000 man days. The heavy continuing cost of all settlements reflected the reaction of bargaining unit employees to inflationary pressures.

**Personnel**

The Company continued to implement and broaden a number of programs designed to recognize and improve employees' abilities and performance. Particular attention is being directed to the question of management development to meet the challenges of the next decade. Two specific programs in this area relate to performance appraisal and a Management School. Recruiting of qualified professional staff is a growing concern in view of the strong demand for their skills by industry and government and the geographical dispersion of our manufacturing facilities. In particular, it is becoming increasingly difficult to hire skilled manpower in some of the more remote communities where the Company operates because of the relative attraction of the educational, health and cultural facilities that are available in metropolitan areas. Despite these difficulties, the Company has been successful in considerably strengthening and broadening its managerial and professional staff.

**Research**

During the past year, the Company continued its research program at Senneville, Quebec, with major emphasis on improving product quality and profitability. An evaluation of the projects in this program has indicated a good return on research investment.

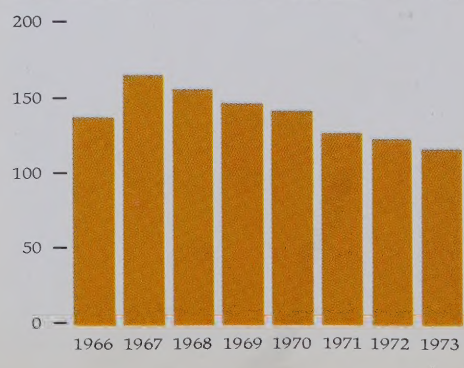
The Research Centre has helped select and design new and improved production methods, typical examples being those for gypsum wallboard and thermo-mechanical pulp and new control systems for the pulp digester and bleach plants at Cornwall, Ontario. In addition, an increased effort has been directed towards the development of new products. It is expected that some of these will be marketed during 1974. The various industrial research incentive programs made available by the federal government have assisted the Research Centre in its work.

**Pollution Abatement**

The Research Centre's environmental research program has been mainly concerned with the design of new treatment systems, the development of methods for the utilization of waste products, investigations of new pulping and bleaching processes with minimum or zero pollution potential and river surveys to evaluate the effect of plant effluents on the ecology. A new facility for determining the toxicity of effluents on fish has been added, primarily to establish the effect of process changes on the potential toxicity of the resulting effluents.

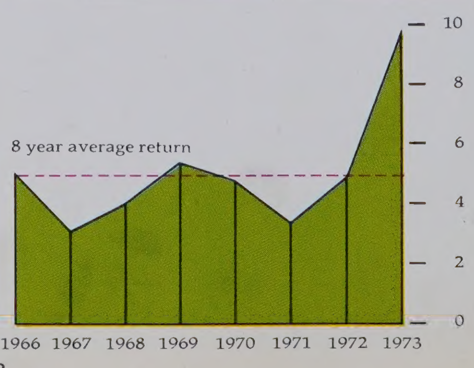
There is close inter-action between the pollution abatement installations and the programs at the various mills and the environmental research program. Major emphasis has now been placed on installation of equipment for in-plant treatment. Important advances have been made for in-plant removal of suspended solids at East Angus, Quebec, and of suspended solids and dissolved organic matter at Trenton, Ontario. In addition, equipment for the improved collection and stripping of condensates is being installed at Cornwall which, when placed in operation in early 1974, should signi-

**Long-Term Debt**
(millions of dollars)




**Percentage Return After Taxes on Capital Invested**
(Percent)

Net earnings (before extraordinary items) plus funded debt interest after taxes plus minority interest, as a percentage of capital invested.



ficantly reduce both air and water pollution at that location. During the past year, clarifiers for treating the mill effluent were placed in operation at Cornwall and Beauharnois, Quebec.

**Prospects for 1974**

The general economic outlook for 1974 appears especially uncertain. Growth in real terms, if it occurs at all, is expected to be only modest. Inflation will continue. While current expectations of business investment in plant and equipment might suggest a continuing buoyant world economy, the shortage of fuel, its likely duration and the dramatic escalation in the price of oil have already had a depressing effect on economic activity. Although Canada appears to have adequate fuel supplies, at least in the near term, the vulnerability of Western Europe and Japan and, to a much lesser extent, the United States may very well have adverse economic consequences for Canada whose well being is so dependent upon a flourishing world economy. The instability evident in foreign exchange markets and the possibility of restrictive commercial policies make predictions at this time more than usually hazardous.

Despite the uncertainties surrounding the general economic outlook, prospects for the Company's products appear good for 1974. Unless there is a severe recession, the Company expects the demand for pulp and for paper products to remain relatively firm during 1974. No major increases in production capacity are foreseen for that year. Although housing starts will probably decline from last year's record, the outlook for construction materials remains good. The demand should still be buoyant and building activity in the commercial, industrial and institutional sectors is expected to continue at a high level. A modest improvement in the profits of the Chemicals group is anticipated as new investments begin to generate additional earnings.

**Appreciation**

The Company is grateful for the goodwill and cooperation of its many customers and suppliers. The Directors wish to extend their sincere thanks to all those employees whose competence, efficiency and enthusiasm contributed to the continued progress of the Company.

On behalf of the Board

TN Beaupré

T.N. Beaupré
Chairman of the Board and President

Montreal, Quebec
March 8, 1974.

# Consolidated Statement of Earnings

Year ended December 31

| | 1973 | 1972 |
|---|---|---|
| **Sales and revenues:** | | |
| Sales | $655,843,629 | $560,779,334 |
| Investment and sundry income | 6,252,891 | 1,419,499 |
| | 662,096,520 | 562,198,833 |
| **Costs and expenses:** | | |
| Cost of sales and selling and administrative expenses | 559,654,024 | 496,035,388 |
| Depreciation | 27,066,166 | 26,431,640 |
| Interest on funded debt | 7,154,549 | 7,637,113 |
| Interest on other indebtedness | 194,612 | 250,970 |
| | 594,069,351 | 530,355,111 |
| **Earnings before income taxes, minority interest and extraordinary items** | 68,027,169 | 31,843,722 |
| Current income taxes | 21,435,000 | 8,320,000 |
| Deferred income taxes | 5,217,000 | 5,255,000 |
| Minority interest | 815,703 | 800,935 |
| | 27,467,703 | 14,375,935 |
| **Earnings before extraordinary items** | 40,559,466 | 17,467,787 |
| **Extraordinary items** | — | 4,100,000 |
| **Net earnings** | $ 40,559,466 | $ 13,367,787 |
| Earnings per common share before extraordinary items | $2.70 | $1.14 |
| Earnings per common share after extraordinary items | $2.70 | $0.86 |

See accompanying notes to financial statements

# Consolidated Statement of Retained Earnings

Year ended December 31

| | 1973 | 1972 |
|---|---|---|
| Retained earnings at beginning of year | $ 99,014,746 | $ 95,136,085 |
| Net earnings | 40,559,466 | 13,367,787 |
| | 139,574,212 | 108,503,872 |
| Dividends on— | | |
| Preference shares ($1 per share) | 592,746 | 592,746 |
| Common shares ($1 per share—1972 $0.60) | 14,827,300 | 8,896,380 |
| | 15,420,046 | 9,489,126 |
| Retained earnings at end of year | $124,154,166 | $ 99,014,746 |

See accompanying notes to financial statements

# Consolidated Balance Sheet
December 31

## Assets

| | 1973 | 1972 |
|---|---|---|
| **Current assets:** | | |
| Cash and short-term investments | $ 47,541,476 | $ 11,683,729 |
| Receivables | 111,848,604 | 95,750,392 |
| Inventories, at lower of cost and net realizable value | 88,365,499 | 85,218,804 |
| Prepaid expenses | 2,543,272 | 1,717,621 |
| | 250,298,851 | 194,370,546 |
| **Investments and advances, at cost:** | | |
| Listed securities (quoted value $11,342,000 1972—$9,482,000) | 13,319,969 | 13,319,969 |
| Other investments and advances | 13,081,346 | 13,062,013 |
| | 26,401,315 | 26,381,982 |
| **Fixed assets, at cost:** | | |
| Plant, machinery and facilities | 629,901,306 | 625,131,044 |
| Timber limits and land | 26,063,745 | 26,699,937 |
| | 655,965,051 | 651,830,981 |
| Less: Accumulated depreciation | 361,212,927 | 356,015,028 |
| | 294,752,124 | 295,815,953 |
| | $571,452,290 | $516,568,481 |

APPROVED BY THE BOARD:

T. N. BEAUPRÉ, Director

H. ROY CRABTREE, Director

## Liabilities

| | 1973 | 1972 |
|---|---|---|
| **Current liabilities:** | | |
| Bank indebtedness | $ 1,678,574 | $ 1,891,313 |
| Payables | 67,331,558 | 54,766,372 |
| Income and other taxes | 20,395,075 | 4,968,010 |
| Dividends payable | 8,431,189 | 2,505,750 |
| | 97,836,396 | 64,131,445 |
| **Funded debt** | 115,153,000 | 123,023,000 |
| **Deferred income taxes** | 76,548,000 | 71,331,000 |
| **Minority interests** | 11,590,275 | 12,394,937 |
| **Shareholders' equity:** | | |
| Capital stock— | | |
| $1 cumulative redeemable preference shares, par value $23.50, redeemable at $25 | | |
| Authorized— 578,600 shares (1972—600,000) | | |
| Outstanding— 571,346 shares (1972—592,746) | 13,426,631 | 13,929,531 |
| Common shares without nominal or par value | | |
| Authorized— 25,000,000 shares | | |
| Outstanding— 14,827,300 shares | 132,743,822 | 132,743,822 |
| Retained earnings | 124,154,166 | 99,014,746 |
| | 270,324,619 | 245,688,099 |
| | $571,452,290 | $516,568,481 |

See accompanying notes to financial statements

# Notes to Consolidated Financial Statements

December 31, 1973

### 1. Principles of consolidation:

The accompanying financial statements include the accounts of Domtar Limited and all its subsidiary companies.

Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at current rates of exchange at December 31, 1973. Fixed assets and other long-term assets and liabilities have been translated at rates of exchange in effect at the dates of the transactions.

### 2. Preference shares:

During the year 21,400 $1 cumulative redeemable preference shares were purchased for cancellation and accordingly the authorized and outstanding shares were reduced.

### 3. Inventories:

| | December 31 1973 | 1972 |
|---|---|---|
| Logs and pulp chips | **$ 16,368,328** | $ 13,705,698 |
| Raw materials and operating and maintenance supplies | **37,328,171** | 33,490,106 |
| Finished goods including work-in-process | **34,669,000** | 38,023,000 |
| | **$ 88,365,499** | $ 85,218,804 |

### 4. Other investments and advances:

| | December 31 1973 | 1972 |
|---|---|---|
| Secured loans to the Trustees for employees under the company's stock purchase plan | **$ 1,011,829** | $ 1,440,726 |
| Municipal bonds | **6,422,000** | 6,102,000 |
| Loans, mortgages and debentures | **5,213,440** | 5, 5,209 |
| Shares | **434,077** | 434,078 |
| | **$ 13,081,346** | $ 13,062,013 |

### 5. Fixed assets:

| | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| December 31, 1973— | | (millions of dollars) | |
| Plant, machinery and facilities— | | | |
| Pulp and paper | **$442.9** | **$235.4** | **$207.5** |
| Construction materials | **86.0** | **61.5** | **24.5** |
| Chemicals | **94.1** | **54.4** | **39.7** |
| Other | **6.9** | **5.1** | **1.8** |
| Timber limits and land | **26.1** | **4.8** | **21.3** |
| | **$656.0** | **$361.2** | **$294.8** |
| December 31, 1972— | | | |
| Plant, machinery and facilities— | | | |
| Pulp and paper | $455.4 | $237.0 | $218.4 |
| Construction materials | 81.6 | 58.6 | 23.0 |
| Chemicals | 82.8 | 51.2 | 31.6 |
| Other | 5.3 | 4.5 | 0.8 |
| Timber limits and land | 26.7 | 4.7 | 22.0 |
| | $651.8 | $356.0 | $295.8 |

### 6. Funded debt:

| | Maturity | December 31 1973 | 1972 |
|---|---|---|---|
| Domtar Limited— | | | |
| Sinking fund debentures— | | | |
| 5¼% Series "A" | 1978 | **$ 11,250,000** | $ 12,500,000 |
| 6¼% Series "B" | 1980 | **6,900,000** | 7,575,000 |
| 5½% Series "C" | 1982 | **11,300,000** | 12,200,000 |
| 5¾% Series "D" | 1984 | **13,600,000** | 14,400,000 |
| 5⅝% Series "E" | 1990 | **33,600,000** | 35,000,000 |
| 6¾% Series "F" | 1987 | **35,000,000** | 35,000,000 |
| St. Lawrence Corporation Limited— | | | |
| First mortgage sinking fund bonds— | | | |
| 5% Series "C" | 1978 | **5,324,000** | 5,876,000 |
| Sinking fund debentures— | | | |
| 6¾% Series "A" | 1980 | **10,300,000** | 11,400,000 |
| | | **127,274,000** | 133,951,000 |
| Less: Held for sinking fund | | **12,121,000** | 10,928,000 |
| | | **$115,153,000** | $123,023,000 |

Approximate instalments due in each of the next five years: 1974—Nil; 1975—$2,633,000; 1976—$8,077,000; 1977—$8,077,000; 1978—$15,641,000.

### 7. Minority interests:

| | December 31 1973 | 1972 |
|---|---|---|
| Preferred shares of subsidiary company: | | |
| St. Lawrence Corporation Limited— 91,952 5% preferred shares of $100 each, redeemable at $101 (after purchase for cancellation during the year of 8,184 shares) | **$ 9,195,200** | $ 10,013,600 |
| Common share equity in subsidiary companies | **2,395,075** | 2,381,337 |
| | **$ 11,590,275** | $ 12,394,937 |

### 8. Pension plans:

The company and its subsidiaries have pension plans for their employees. During 1973, these plans were amended to provide for substantially increased benefits. After giving effect to these amendments, the liability for benefits in respect of past service remaining to be charged to operations approximates $29,100,000 (1972—$13,632,000) at December 31, 1973. This cost will be charged to earnings over the next seventeen years as recommended by the actuaries.

### 9. Information on directors and officers:

| | Number Year ended December 31 1973 | 1972 | Remuneration Year ended December 31 1973 | 1972 |
|---|---|---|---|---|
| Directors | **18** | 19 | **$ 100,008** | $ 84,725 |
| Officers | **23** | 22 | **1,167,481** | 1,040,355 |
| Officers who are also directors | **2** | 1 | | |

### 10. Sales by class of business:

| | Year ended December 31 1973 | 1972 |
|---|---|---|
| | (millions of dollars) | |
| Pulp and paper products | **$442.0** | $364.5 |
| Construction materials | **122.1** | 110.9 |
| Chemicals | **91.7** | 85.4 |
| | **$655.8** | $560.8 |

# Consolidated Statement of Source and Application of Funds

Year ended December 31

| | 1973 | 1972 |
|---|---|---|
| **Source of funds:** | | |
| Net earnings | $ 40,559,466 | $ 13,367,787 |
| Depreciation | 27,066,166 | 26,431,640 |
| Deferred income taxes | 5,217,000 | 5,255,000 |
| Minority interest | 815,703 | 800,935 |
| Extraordinary items | — | 4,526,000 |
| Cash flow from operations | 73,658,335 | 50,381,362 |
| Proceeds from sale of major fixed assets | 16,096,413 | — |
| | 89,754,748 | 50,381,362 |
| **Application of funds:** | | |
| Fixed assets | 42,098,750 | 28,485,046 |
| | 7,870,000 | 4,075,000 |
| | 1,620,365 | 1,108,047 |
| ;ed | 502,900 | — |
| | 19,333 | 1,205,769 |
| | 592,746 | 592,746 |
| | 14,827,300 | 8,896,380 |
| | 67,531,394 | 44,362,988 |
| | 22,223,354 | 6,018,374 |
| | 130,239,101 | 124,220,727 |
| | $152,462,455 | $130,239,101 |

See accompanying notes to financial statements

# Auditors' Report

To the Shareholders of
Domtar Limited:

We have examined the consolidated balance sheet of Domtar Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, January 29, 1974

Price Waterhouse & Co.
Chartered Accountants

# Notes to Consolidated Financial Statements

December 31, 1973

### 1. Principles of consolidation:

The accompanying financial statements include the accounts of Domtar Limited and all its subsidiary companies.

Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at current rates of exchange at December 31, 1973. Fixed assets and other long-term assets and liabilities have been translated at rates of exchange in effect at the dates of the transactions.

### 2. Preference shares:

During the year 21,400 $1 cumulative redeemable preference shares were purchased for cancellation and accordingly the authorized and outstanding shares were reduced.

### 3. Inventories:

| | December 31 1973 | 1972 |
|---|---|---|
| Logs and pulp chips | **$ 16,368,328** | $ 13,705,698 |
| Raw materials and operating and maintenance supplies | **37,328,171** | 33,490,106 |
| Finished goods including work-in-process | **34,669,000** | 38,023,000 |
| | **$ 88,365,499** | $ 85,218,804 |

### 4. Other investments and advances:

| | December 31 1973 | 1972 |
|---|---|---|
| Secured loans to the Trustees for employees under the company's stock purchase plan | **$ 1,011,829** | $ 1,440,726 |
| Municipal bonds | **6,422,000** | 6,102,000 |
| Loans, mortgages and debentures | **5,213,440** | 5, 5,209 |
| Shares | **434,077** | 434,078 |
| | **$ 13,081,346** | $ 13,062,013 |

### 5. Fixed assets:

| | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| December 31, 1973— | | (millions of dollars) | |
| Plant, machinery and facilities— | | | |
| Pulp and paper | **$442.9** | **$235.4** | **$207.5** |
| Construction materials | **86.0** | **61.5** | **24.5** |
| Chemicals | **94.1** | **54.4** | **39.7** |
| Other | **6.9** | **5.1** | **1.8** |
| Timber limits and land | **26.1** | **4.8** | **21.3** |
| | **$656.0** | **$361.2** | **$294.8** |
| December 31, 1972— | | | |
| Plant, machinery and facilities— | | | |
| Pulp and paper | $455.4 | $237.0 | $218.4 |
| Construction materials | 81.6 | 58.6 | 23.0 |
| Chemicals | 82.8 | 51.2 | 31.6 |
| Other | 5.3 | 4.5 | 0.8 |
| Timber limits and land | 26.7 | 4.7 | 22.0 |
| | $651.8 | $356.0 | $295.8 |

### 6. Funded debt:

| | Maturity | December 31 1973 | 1972 |
|---|---|---|---|
| Domtar Limited— | | | |
| Sinking fund debentures— | | | |
| 5¼% Series "A" | 1978 | **$ 11,250,000** | $ 12,500,000 |
| 6¼% Series "B" | 1980 | **6,900,000** | 7,575,000 |
| 5½% Series "C" | 1982 | **11,300,000** | 12,200,000 |
| 5¾% Series "D" | 1984 | **13,600,000** | 14,400,000 |
| 5⅝% Series "E" | 1990 | **33,600,000** | 35,000,000 |
| 6¾% Series "F" | 1987 | **35,000,000** | 35,000,000 |
| St. Lawrence Corporation Limited— | | | |
| First mortgage sinking fund bonds— | | | |
| 5% Series "C" | 1978 | **5,324,[illegible]** | |
| Sinking fund debentures | | | |
| 6¾% [illegible] | | | |

**PRINTING OMISSION**

In Note 4 of the Notes to Consolidated Financial Statements, the amount for "Loans, mortgages and debentures" as at December 31, 1972 should read $5,085,209.

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C(

| | | 1973 | 1972 |
|---|---|---|---|
| ...oration Limited— | | | |
| 91,952 5% preferred shares of $100 each, redeemable at $101 (after purchase for cancellation during the year of 8,184 shares) | **$** | **9,195,200** | $ 10,013,600 |
| Common share equity in subsidiary companies | | **2,395,075** | 2,381,337 |
| | **$** | **11,590,275** | $ 12,394,937 |

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| | **$655.8** | $560.8 |

## Consolidated Statement of Source and Application of Funds

Year ended December 31

| | 1973 | 1972 |
|---|---|---|
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| Net earnings | $ 40,559,466 | $ 13,367,787 |
| Depreciation | 27,066,166 | 26,431,640 |
| Deferred income taxes | 5,217,000 | 5,255,000 |
| Minority interest | 815,703 | 800,935 |
| Extraordinary items | — | 4,526,000 |
| Cash flow from operations | 73,658,335 | 50,381,362 |
| Proceeds from sale of major fixed assets | 16,096,413 | — |
| | 89,754,748 | 50,381,362 |
| **Application of funds:** | | |
| Fixed assets | 42,098,750 | 28,485,046 |
| Funded debt | 7,870,000 | 4,075,000 |
| Minority interest | 1,620,365 | 1,108,047 |
| Par value of preference shares purchased | 502,900 | — |
| Investments and advances | 19,333 | 1,205,769 |
| Dividends on preference shares | 592,746 | 592,746 |
| Dividends on common shares | 14,827,300 | 8,896,380 |
| | 67,531,394 | 44,362,988 |
| Increase in working capital | 22,223,354 | 6,018,374 |
| Working capital at beginning of year | 130,239,101 | 124,220,727 |
| Working capital at end of year | $152,462,455 | $130,239,101 |

See accompanying notes to financial statements

## Auditors' Report

To the Shareholders of
Domtar Limited:

We have examined the consolidated balance sheet of Domtar Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, January 29, 1974

Price Waterhouse & Co.
Chartered Accountants

# Historical Review

| Financial | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 |
|---|---|---|---|---|---|---|---|---|
| | | | | (millions of dollars) | | | | |
| Net fixed assets | **294.8** | 295.8 | 299.7 | 304.1 | 290.9 | 291.3 | 306.2 | 316.0 |
| Net working capital | **152.4** | 130.2 | 124.2 | 132.0 | 146.7 | 143.7 | 118.3 | 77.7 |
| Investments and advances | **26.4** | 26.4 | 25.2 | 34.4 | 36.4 | 34.0 | 52.5 | 27.1 |
| Total net assets | **473.6** | 452.4 | 449.1 | 470.5 | 474.0 | 469.0 | 477.0 | 420.8 |
| Represented by: | | | | | | | | |
| Funded debt | **115.2** | 123.0 | 127.1 | 142.0 | 147.1 | 155.7 | 165.4 | 137.2 |
| Deferred income taxes | **76.5** | 71.3 | 67.5 | 64.1 | 53.7 | 51.6 | 52.4 | 47.8 |
| Minority interest | **11.6** | 12.4 | 12.7 | 14.7 | 15.2 | 16.0 | 17.1 | 18.1 |
| Shareholders' equity | **270.3** | 245.7 | 241.8 | 249.7 | 258.0 | 245.7 | 242.1 | 217.7 |
| | **473.6** | 452.4 | 449.1 | 470.5 | 474.0 | 469.0 | 477.0 | 420.8 |
| Sales and revenues: | | | | | | | | |
| Pulp and paper | **442.0** | 364.5 | 338.5 | 335.7 | 310.1 | 279.0 | 272.0 | 272.3 |
| Chemicals | **91.7** | 85.4 | 80.2 | 68.7 | 64.0 | 62.0 | 57.5 | 56.3 |
| Construction materials | **122.1** | 110.9 | 97.7 | 80.5 | 90.7 | 86.4 | 81.0 | 84.1 |
| Consumer products | — | — | — | — | — | — | 17.5 | 17.4 |
| Other revenues | **6.3** | 1.4 | 3.0 | 6.7 | 7.2 | 4.7 | 2.0 | 2.0 |
| | **662.1** | 562.2 | 519.4 | 491.6 | 472.0 | 432.1 | 430.0 | 432.1 |
| Earnings before taxes | **67.2** | 31.0 | 19.5 | 27.2 | 32.3 | 21.0 | 15.2 | 30.6 |
| Current income taxes | **21.4** | 8.3 | 4.6 | 10.4 | 9.9 | 8.6 | 6.0 | 4.0 |
| Deferred income taxes | **5.2** | 5.3 | 4.4 | (1.1) | 2.1 | (0.7) | 0.1 | 10.6 |
| Net earnings | **40.6** | 17.4* | 10.5* | 17.9 | 20.3 | 13.1 | 9.1 | 16.0 |
| Cash flow from operations | **73.7** | 50.4 | 41.8 | 43.9 | 48.3 | 38.4 | 32.5 | 49.8 |
| Capital expenditures | **42.1** | 28.5 | 23.7 | 39.0 | 24.6 | 10.1 | 16.4 | 57.6 |
| | | | | $ Per common share | | | | |
| Earnings | **2.70** | 1.14* | 0.67* | 1.17 | 1.33 | 0.85 | 0.58 | 1.04 |
| Dividends | **1.00** | 0.60 | 0.60 | 0.70 | 0.60 | 0.60 | 0.90 | 1.00 |
| Cash flow | **4.93** | 3.36 | 2.78 | 2.92 | 3.22 | 2.57 | 2.17 | 3.35 |
| Book value | **17.33** | 15.63 | 15.37 | 15.90 | 16.43 | 15.72 | 15.52 | 13.85 |

*Before deducting extraordinary items of $4.1 million ($0.28 per common share) in 1972—$8.7 million ($0.59 per common share) in 1971.

| **Pulp and paper production** (tons) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Newsprint | **354,020** | 380,749 | 467,791 | 480,114 | 542,434 | 520,127 | 521,856 | 586,976 |
| Kraft paper and board | **449,690** | 433,664 | 420,878 | 413,883 | 388,675 | 364,800 | 388,912 | 378,394 |
| Fine and specialty papers | **384,012** | 328,495 | 321,803 | 299,998 | 250,380 | 214,700 | 204,525 | 207,572 |
| Market pulp | **234,357** | 265,600 | 223,300 | 297,400 | 294,800 | 221,700 | 223,683 | 191,868 |
| | **1,422,079** | 1,408,508 | 1,433,772 | 1,491,395 | 1,476,289 | 1,321,327 | 1,338,976 | 1,364,810 |

Note:—The 1970 and prior figures have been restated to reflect the amalgamation of Howard Smith Paper Mills, Limited and Domtar Limited.
Cash flow has been restated to include minority interest.

## Report on Operations Domtar Pulp & Paper Products Ltd.

Continued increases in world-wide market demand for virtually all pulp and paper products, which permitted significant price increases and allowed Domtar's pulp and paper production facilities to operate at near capacity levels, resulted in substantially increased profits from both domestic and foreign operations during 1973.

Coincident with the foregoing, all operations were required to absorb substantially increased costs for salaries and wages, materials, supplies, transportation and other costs which are related to the production and sale of the company's products. In addition, 1973 was characterized by fibre supply problems in all areas in which the company's prime production facilities operate. Demand for wood fibre by the sawmill and pulp industries reached record levels. Costs for all elements of materials and wages increased substantially in 1973 and are expected to continue to rise in 1974.

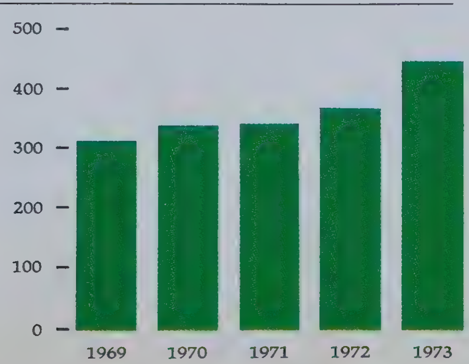
During 1973, approximately $26 million was expended for capital improvements to the company's production and distribution facilities. There were few major individual expenditures of capital as the company continued to direct its investment program towards improving productivity and quality and reducing the levels of pollution and the working capital employed in the business.

The sale of the newsprint and coated publication grade paper mill at Trois-Rivières was completed on August 31, 1973. Domtar Newsprint Limited will be marketing the full output of the mill for coated publication grade paper under a long-term contract and has a short-term one for substantial tonnages of newsprint. The company is indebted to the employees, their unions and the municipal, provincial and federal government representatives for the cooperation and understanding with which the problems of this mill have been dealt with over the last several years.

Although the scope of the company's operations is mainly domestic, Domtar does have a continuing interest in international markets particularly in view of the impact in Canada of foreign imports. The company, together with other representatives of the Canadian pulp and paper industry, has endeavoured to establish with the federal and provincial governments that it can only play an important role in the Canadian economy if it can operate competitively on an international basis. Over the past few years, a number of formal and informal meetings have been held with various governments with a view to identifying the factors outside of industry control which place the Canadian industry at a competitive disadvantage. In this regard, the enactment of federal legislation which lowered the tax on profits from manufacturing and processing facilities to 40% and introduced accelerated capital cost allowances on capital expenditures brings the tax burden of the Canadian pulp and paper industry closer to that experienced by its foreign competitors and should be retained to ensure that the industry can develop longer term plans on a basis which approaches equality with its foreign competitors.

The agreement between the federal government and Canada's forest based industries to set up the Forest Engineering Research Institute of Canada as a joint government-industry venture will assist in the development of new and improved wood harvesting methods. It is hoped that, as a result of joint government review of discretionary grants available to the Canadian pulp and paper industry, these grants will be directed towards the strengthening of viable operations as opposed to being directed towards the construction of capacity in undesirable areas and without regard to the overall supply/demand situation. The Quebec government's policy of deferring stumpage payments

**Pulp and Paper Products Sales**
(millions of dollars)



against pollution abatement expenditures was a recognition of the social needs of the province and the cash deficiencies of many of the pulp and paper companies over the last couple of years.

The major trading nations of the world are seeking ways to initiate further reductions in barriers to world trade. It is the conviction of the company that—given a competitive environment—it has the resources of supply, fixed assets and personnel to compete in the world pulp and paper market place.

Significant progress has been made by the company in meeting federal and provincial pollution abatement requirements. Much more investment is required. The increased emphasis on pollution abatement has led to significant research efforts which have, in turn, developed alternative routes to meet pollution abatement standards. It is most desirable that time be given for these developments to be pursued so that the most economical and effective solution to the pollution problems may be found. Technology of great significance to both air and water pollution problems is being developed.

The imbalance in the demand/supply relationship, which existed in 1973 and which was further aggravated by tonnage lost through work stoppages, forced some parts of the industry to adopt a policy of product allocation. Our policy in such circumstances will be to recognize our responsibility to fulfill our commitments to our Canadian customers while, at the same time, protecting to the best of our ability our export customers' interests.

**Principal Products:**

**Domtar Fine Papers Ltd.**—Uncoated and coated fine papers for the printing, business and converter trades as well as specialty papers such as diazo base, glassine, greaseproof, cigarette and carbonizing.

**Domtar Newsprint Limited**—Standard and specialty newsprint; coated publication grade and directory papers.

**Domtar Packaging Limited**—Linerboard, corrugating medium, kraft papers and boxboards for conversion; corrugated shipping containers; packaging and wrapping papers for the consumer trades; grocery and other paper bags; towelling and tissue products; fibre cans and tubes; diapers.

**Domtar Pulp Limited**—Bleached and unbleached softwood and hardwood sulphate pulp; semi-bleached softwood sulphate pulp; unbleached sulphite pulp.

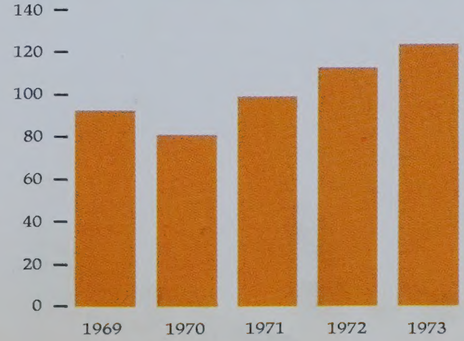
**Domtar Woodlands Limited**—Lumber.

# Report on Operations Domtar Construction Materials Ltd.

The year 1973 was a record one for the company. Sales improved 10% over the 1972 figure to reach a total of $122.1 million. Increased volume was achieved in all major products with the exception of clay brick which was adversely affected by a three month strike at the Laprairie, Quebec, plant. The cyclical nature of the construction industry was never more evident than in the past year when residential and non-residential building construction peaked simultaneously and created an unprecedented demand for our products. Efforts to take full advantage of this active market were hampered by numerous strikes, principally in our own facilities.

Residential construction, supported by a ready supply of mortgage money even if at high interest rates, reached record levels for the third year in a row with 268,529 housing starts and 246,581 completions. While unit starts and completions were only slightly above 1972 levels, the market potential for our products increased by about 10% as single family housing unit starts at 130,000 represented 50% of total starts—the highest percentage since 1963. Consumers, strongly influenced by an inflationary psychology, adopted a "buy it now" attitude as they tended to choose home ownership despite the high cost of loans. It is significant to note this trend towards the satisfaction by Canadians of their aspirations for home ownership, particularly in view of the misplaced emphasis by some news media on housing costs outstripping the ability to buy. Non-residential building construction activity kept on climbing, particularly in the commercial and industrial sectors. Total building contract awards were 26% higher in dollar value than last year—the equivalent of a 16% volume increase. The rate of inflation within the construction industry, as in other segments of the economy, increased at a higher rate than we have experienced for many years.

**Construction Materials Sales**
(millions of dollars)




Operating profit overall was particularly encouraging. The high market demand resulted in prices which, for the first time in several years, reflected our labour and material cost increases. This, added to our improved operating efficiencies at the higher production rates, produced a reversal of the downtrend in profit margins. Profits were still significantly affected by the numerous work stoppages that we experienced during the year. The most serious of these were strikes at seven of our locations and the national rail strike.

A new production line for saturated felt was brought into production at Lachine, Quebec, in the third quarter of 1973. This unit, together with the expansion of gypsum wallboard facilities at Montreal East, Quebec, and Caledonia, Ontario, scheduled for completion early in 1974, will enable the company to meet demand more adequately and achieve further operating efficiencies. Additional major projects related to growth market opportunities are in the advanced stages of planning.

Although it is generally accepted that there will be a decline in housing starts from the 1973 record level, estimates of approximately 240,000 new units in 1974 would, if achieved, still be among the highest in history and provide a strong market potential. Non-residential construction, particularly industrial, is expected to again advance sharply in 1974; the value of this construction next year is expected to increase by about 15% to 20%, which would more than offset the decline in residential construction.

Recent passage of the federal government's Assisted Home Ownership Program, which provides low income families with an alternative to rental through interest rate subsidies and grants geared to income, is a progressive step in the government's program of recognizing housing as a priority item.

The current overall outlook for 1974 is one of optimism. On the other hand, the availability and cost of raw materials, labour and energy are negative factors which could slow down construction activity.

**Principal Products:**
Clay brick; acoustical plasters; fibre conduit; NO-CO-RODE® sewer and drainage pipe; asphalt shingles; roll roofing and siding; roof, sheathing and panel board and CEL-U-CON® 25 noncombustible roofboard; ceiling tiles and grid panels; linear ceiling systems; partition systems; gypsum lath, plank and wall board and wall panelling; ARBORITE® decorative and industrial plastic laminates; HAYDITE® lightweight aggregate; plastic conduit.

®REGISTERED TRADE MARK

# Report on Operations
# Domtar Chemicals Limited

Sales in 1973 were 7% higher than in 1972 but operating profit was only marginally better because strikes in the company's operations and in related industries seriously retarded the profit improvement which might have been expected from increased demand.

Performance of the Sifto Salt division was adversely affected by a three month strike at the Goderich, Ontario, mine which reduced sales of rock salt for ice control purposes. In May, 1973, we acquired a mine located in Cote Blanche, Louisiana. Rated annual capacity approximates one million tons, which compares with an annual capacity of 2.25 million tons at our Goderich mine. Plans are being implemented to increase capacity by 40% over the next two years. This acquisition will markedly improve the division's position as a major salt producer in North America. The capacity of the Unity, Saskatchewan, evaporated salt plant will be increased by over 30% in 1974. Our major capital investment program in the salt business in recent years is expected to improve results in 1974 and the foreseeable future.

The steel industry demand in the United States and Canada was a major factor in raising Lime division sales to a new record. The use of lime products in pollution control is increasing and their potential, particularly for municipal sewage disposal, is great. The pressure of demand on our production facilities in Quebec and Ontario during 1973 often exceeded capacity. Expansion studies are under way.

The Wood Preserving division attained a record level of sales in 1973 and an improvement in operating profit compared to the previous year despite a severe shortage of raw materials and their increased cost. Market development work was concentrated largely in the areas of treated wood house foundations and agricultural applications with some encouraging results. Research on new preservation and fire retardant treatments, the development of laminated ties and the evaluation of wood species, previously considered unsuitable by the industry, was diligently pursued. The demand side of the picture remains promising for 1974. Results will depend on the availability of wood and the possibility of containing the escalation in raw material costs.

The Tar & Chemical division enjoyed a successful year with sales 11% above the previous year and profits substantially increased. The expansion of the tar distillation plant at Hamilton, Ontario, was completed in the first quarter of 1973 and the added capacity contributed to improved efficiencies and higher sales. Markets for tar products remain strong. However, the effects of the energy shortage are being felt on the supply of our raw material, coal tar, which also has fuel value. While this has been mainly reflected in increased costs to date, the uncertainty of the world supply of liquid fuels in the near future is a source of major concern and tempers an otherwise optimistic outlook for the coming year.

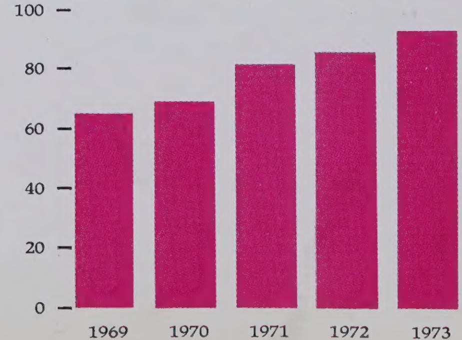
The Canadian plants of the Metal Powders division operated profitably during 1973. High demand, combined with world shortages of iron powders, enabled prices to rise sufficiently to overcome increased raw material and labour costs. Negotiations for the sale of the plant at Ridgway, Pennsylvania, which was shut down in September 1972, continue.

There was a brisk demand for all product lines supplied by Chemical Developments of Canada Limited during 1973. A 19 week strike in the plant at Longford Mills, Ontario, coupled with increasingly severe shortages of raw materials, placed considerable strain on production capability. As a result, sales and profit margins did not reflect the anticipated growth.

Despite the current concerns about energy, inflationary cost increases and raw material shortages, demand from industries we serve should be high enough to raise total sales in 1974 to over $100 million for the first time in the company's history. The additional sales are expected to generate commensurate earnings.

**Principal Products:**
SIFTO® salt; pressure treated and fire retardant wood; coal tar pitches and acids; creosote; naphthalene and phthalic anhydride; limestone; hydrated lime and quicklime, iron alloy powders; synthetic detergents; wetting agents; carboxymethylcellulose; dyestuffs and pigments.
®REGISTERED TRADE MARK

**Chemical Sales**
(millions of dollars)



The cover of this Annual Report was lithographed in Canada on Domtar "Glosskote" Cover, White, coated one side, 10 pt.-216 g/m². The inside pages were lithographed on Domtar "Luxagloss" Offset Enamel, White, 200(M)-148 g/m². Both grades contain reclaimed, de-inked and recycled fibre.